

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Southgate, Michigan</u>	County Wayne
Audit Date June 30, 2005	Opinion Date September 22, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Southgate, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Southgate, Michigan

Principal Officials Elected

Administrative

Mayor
Dennis A. David

Clerk
Cecilia S. Dally

Treasurer
James H. Gray

Legislative

President of Council
John Graziani

Shirley Underwood
Patricia Ganzberger
Refugio Torres
Dale Zamecki
Theresa Lannen
Linda Santarossa

District Judge

James A. Kandrevas

City of Southgate, Michigan

Principal Officials Appointed

City Administrator

George Mans

Assistant City Administrator/Finance Director

David Angileri

Department Heads

Larry Hall
Police Chief

Randall L. Goddard
Fire Chief

J. David Weidenbach
Director of Public Services

Robert Casanova
Chief Building Inspector

Allen J. Kowalkowski
Parks and Recreation Director

City Attorneys

Jack Timmony
VanOverbeke Michaud & Timmony, P.C.

City Auditors

Plante & Moran, PLLC

Consultants

Urban Engineering Company - Engineers
Wade Trim - Planning Consultants

City of Southgate, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets	18
Component Units:	
Statement of Net Assets	19
Statement of Activities	20-21
Notes to Financial Statements	22-49
Required Supplemental Information	50
Budgetary Comparison Schedule - General Fund	51-52
Municipal Employees' Retirement System:	
Schedule of Funding Progress	53
Schedule of Employer Contributions	53

City of Southgate, Michigan

Contents (Continued)

Required Supplemental Information (Continued)

Policemen and Firemen Retirement System:	
Schedule of Funding Progress	54
Schedule of Employer Contributions	54

Other Supplemental Information 55

Nonmajor Governmental Funds:	
Combining Balance Sheet	56-57
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	58-59
Fiduciary Funds:	
Combining Statement of Net Assets	60-61
Combining Statement of Changes in Net Assets	62



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southgate, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement systems schedules of funding progress and employer contributions, and budgetary comparison schedules (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southgate, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005 on our consideration of the City of Southgate, Michigan's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 22, 2005

City of Southgate, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Southgate's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$145,000 this year. This represents a 4 percent decrease from the prior year.
- Property taxes are the City's single, largest source of revenue. The City's taxable value for fiscal year 2005 was \$786,801,238, which represents an increase of \$32,088,941, or 4.2 percent.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund decreased by less than \$165,000 despite certain revenue decreases as well as increases in expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and 2004 (in thousands of dollars):

TABLE I

	Governmental		Business-type Activities		Total	
	Activities		2005	2004	2005	2004
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 15,415	\$ 13,689	\$ 6,326	\$ 6,381	\$ 21,741	\$ 20,070
Noncurrent assets	65,105	64,525	31,345	31,120	96,450	95,645
Total assets	80,520	78,214	37,671	37,501	118,191	115,715
Liabilities						
Current liabilities	5,163	4,338	2,120	1,987	7,283	6,325
Long-term liabilities	19,096	20,328	12,392	13,408	31,488	33,736
Total liabilities	24,259	24,666	14,512	15,395	38,771	40,061
Net Assets						
Invested in capital assets - Net of related debt	47,540	46,317	17,749	16,455	65,289	62,772
Restricted	8,202	7,000	3,703	3,269	11,905	10,269
Unrestricted	519	231	1,707	2,382	2,226	2,613
Total net assets	<u>\$ 56,261</u>	<u>\$ 53,548</u>	<u>\$ 23,159</u>	<u>\$ 22,106</u>	<u>\$ 79,420</u>	<u>\$ 75,654</u>

The City's combined net assets increased 5.0 percent from a year ago, increasing from about \$76 million to about \$79 million. As we look at governmental activities separately from the business-type activities, we can see that net assets increased by \$2.7 million in governmental type and by \$1.0 million in business type. Business-type activities comprise \$23 million of the total net assets.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, increased by \$288,000 for governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$519,000, or about 2.5 percent of expenditures.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Net Assets - Beginning of year	\$ 53,548	\$ 50,994	\$ 22,106	\$ 20,725	\$ 75,654	\$ 71,719
Revenue						
Program revenue:						
Charges for services	5,495	4,669	6,027	5,888	11,522	10,557
Operating grants and contributions	2,881	3,776	-	-	2,881	3,776
Capital grants and contributions	2,116	882	379	457	2,495	1,339
General revenue:						
Property taxes:						
City	7,986	7,734	-	-	7,986	7,734
Sanitation	1,562	1,506	-	-	1,562	1,506
Police and fire	1,988	990	-	-	1,988	990
Library	713	687	-	-	713	687
Streets	1,426	1,353	-	-	1,426	1,353
EPA	-	-	1,180	1,112	1,180	1,112
State-shared revenue	3,271	3,417	-	-	3,271	3,417
Gain on sale of land	14	-	-	-	14	-
Unrestricted investment earnings	316	348	110	64	426	412
Transfers and other revenue	12	284	-	-	12	284
Total revenue	27,780	25,646	7,696	7,521	35,476	33,167
Program Expenses						
General government	3,488	4,076	-	-	3,488	4,076
Public safety	8,453	6,978	-	-	8,453	6,978
Public works	8,710	7,593	-	-	8,710	7,593
28th District Court	1,327	1,454	-	-	1,327	1,454
Recreation and culture	2,258	2,038	-	-	2,258	2,038
Interest on long-term debt	831	953	-	-	831	953
Golf course	-	-	558	581	558	581
Water and sewer	-	-	6,073	5,519	6,073	5,519
General Expense - Transfers and other revenue	-	-	12	40	12	40
Total expenses	25,067	23,092	6,643	6,140	31,710	29,232
Change in Net Assets	2,713	2,554	1,053	1,381	3,766	3,935
Net Assets - End of year	<u>\$ 56,261</u>	<u>\$ 53,548</u>	<u>\$ 23,159</u>	<u>\$ 22,106</u>	<u>\$ 79,420</u>	<u>\$ 75,654</u>

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased by approximately \$2,100,000 from the prior year. The City had increases in charges for services, court fines, and interest income, which contributed to the increase.

Overall, current year expenses increased from the prior year by approximately \$2,000,000, primarily due to significant compensated absence payouts to retirees in the current year. Except for these, payout expenses remained relatively consistent with the prior year, despite large increases in health care costs as well as police and fire overtime. To offset these increases, the City closely monitored its spending in all other areas.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Golf Course Fund. We provide water to residents from the Detroit Water System. We also provide sewage treatment through Wayne County Downriver Sewage Disposal System. In the Golf Course Fund, the two biggest factors affecting business are weather and the economy. In April 2004, the club house has been under new management. Operating loss for the golf course was \$113,378 in fiscal year 2004 in contrast with an operating loss of \$30,132 for fiscal year 2005. This was an improvement of \$83,246, or an improvement of 73 percent.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, the CDBG Fund, and the Building Authority Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$8,600,000 in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were decreases to estimated state-shared revenue and increases in state grants as well as court revenue. City departments overall stayed within 1.1 percent of budget, resulting in total expenditures exceeding revenues by \$164,975. This resulted in a decrease in the General Fund's fund balance from \$2,446,000 a year ago to \$2,280,000 at June 30, 2005.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The City continues to collect a dedicated millage approved by the voters in November 2001 for improvements to streets in conjunction with a five-year improvement plan.

At the end of 2005, the City had approximately \$96,000,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a freeze on operating property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase somewhat in 2006. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2006 to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Southgate, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 10,419,804	\$ 1,023,051	\$ 11,442,855	\$ 1,394,879
Receivables - Net (Note 4)	2,260,170	1,894,171	4,154,341	44,199
Internal balances (Note 6)	335,254	(335,254)	-	-
Due from other governmental units	2,325,237	38,867	2,364,104	71,181
Prepaid items and other assets	74,047	-	74,047	-
Inventories	-	3,032	3,032	-
Restricted assets (Note 9)	-	3,702,585	3,702,585	-
Investment in joint ventures	-	252,509	252,509	-
Net pension asset (Note 12)	580,921	-	580,921	-
Capital assets - Net (Note 5):				
Assets not being depreciated	6,860,162	855,012	7,715,174	-
Assets being depreciated	57,664,226	30,237,005	87,901,231	-
Total assets	80,519,821	37,670,978	118,190,799	1,510,259
Liabilities				
Accounts payable	1,434,474	995,477	2,429,951	68,407
Accrued and other liabilities	655,465	51,692	707,157	-
Deferred revenue (Note 4)	839,364	-	839,364	-
Due to other governmental units	66,973	-	66,973	1,201,970
Compensated absences and other (Notes 1 and 7):				
Due within one year	1,400,294	-	1,400,294	-
Due in more than one year	2,877,560	121,586	2,999,146	-
Long-term debt (Notes 1 and 7):				
Due within one year	765,626	1,072,120	1,837,746	-
Due in more than one year	16,218,870	12,270,694	28,489,564	-
Total liabilities	24,258,626	14,511,569	38,770,195	1,270,377
Net Assets				
Invested in capital assets - Net of related debt	47,539,892	17,749,203	65,289,095	-
Restricted:				
Street expenses	4,858,852	-	4,858,852	-
Sanitation and police and fire retirement	447,400	-	447,400	-
Southgate/Wyandotte drain operation and maintenance	2,036,810	-	2,036,810	-
Library levy	840,100	-	840,100	-
Narcotics enforcement activity	19,389	-	19,389	-
Sewer debt and capital outlay	-	3,702,585	3,702,585	-
Unrestricted	518,752	1,707,621	2,226,373	239,882
Total net assets	\$ 56,261,195	\$ 23,159,409	\$ 79,420,604	\$ 239,882

City of Southgate, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,487,701	\$ 730,090	\$ 344,262	\$ 437,456
Public safety	8,453,085	58,351	10,931	122,626
Public services	8,709,962	1,683,407	1,654,196	1,555,421
Cultural and recreation	2,258,304	1,025,581	826,338	-
28th District Court	1,326,612	1,997,163	45,724	-
Interest on long-term debt	831,064	-	-	-
Total governmental activities	25,066,728	5,494,592	2,881,451	2,115,503
Business-type activities:				
Water and sewer	6,072,510	5,498,987	-	378,830
Golf course	557,728	527,596	-	-
Total business-type activities	6,630,238	6,026,583	-	378,830
Total primary government	\$ 31,696,966	\$ 11,521,175	\$ 2,881,451	\$ 2,494,333
Component units:				
Tax Increment Financing Authority	\$ 1,543,403	\$ 12,000	\$ -	\$ 761,000
Downtown Development Authority	42,173	-	-	-
Economic Development Corporation	-	-	-	-
Total component units	\$ 1,585,576	\$ 12,000	\$ -	\$ 761,000
General revenues:				
Property taxes:				
City				
Sanitation				
Police and fire				
Library				
Streets				
EPA				
Component unit				
State-shared revenues				
Gain on sale of land				
Unrestricted investment earnings				
Transfers				
Total general revenues, proceeds, and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,975,893)	\$ -	\$ (1,975,893)	\$ -
(8,261,177)	-	(8,261,177)	-
(3,816,938)	-	(3,816,938)	-
(406,385)	-	(406,385)	-
716,275	-	716,275	-
(831,064)	-	(831,064)	-
(14,575,182)	-	(14,575,182)	-
-	(194,693)	(194,693)	-
-	(30,132)	(30,132)	-
-	(224,825)	(224,825)	-
(14,575,182)	(224,825)	(14,800,007)	-
-	-	-	(770,403)
-	-	-	(42,173)
-	-	-	-
-	-	-	(812,576)
7,986,493	-	7,986,493	-
1,562,015	-	1,562,015	-
1,987,891	-	1,987,891	-
712,929	-	712,929	-
1,425,939	-	1,425,939	-
-	1,179,896	1,179,896	-
-	-	-	1,256,789
3,271,047	-	3,271,047	-
14,162	-	14,162	-
315,964	110,380	426,344	8,349
12,145	(12,145)	-	-
17,288,585	1,278,131	18,566,716	1,265,138
2,713,403	1,053,306	3,766,709	452,562
53,547,792	22,106,103	75,653,895	(212,680)
\$ 56,261,195	\$ 23,159,409	\$ 79,420,604	\$ 239,882

City of Southgate, Michigan

Governmental Funds Balance Sheet June 30, 2005

	Major Funds				Total Governmental
	General	Community Development Block Grant	Building Authority	Other Nonmajor Governmental Funds	Funds
	Fund	Fund	Fund		
Assets					
Cash and investments	\$ 2,085,720	\$ -	\$ 3,546	\$ 8,085,466	\$ 10,174,732
Receivables - Net	319,870	796,122	3	1,143,916	2,259,911
Due from other funds	1,596,689	1,137,855	-	273,539	3,008,083
Due from component unit	-	-	-	1,201,970	1,201,970
Due from other governmental units	661,727	117,803	-	343,737	1,123,267
Prepaid costs and other assets	72,644	1,403	-	-	74,047
Total assets	\$ 4,736,650	\$ 2,053,183	\$ 3,549	\$ 11,048,628	\$ 17,842,010
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 846,086	\$ -	\$ -	\$ 649,977	\$ 1,496,063
Accrued and other liabilities	555,888	-	-	-	555,888
Due to other funds	1,047,175	1,356,582	-	269,072	2,672,829
Due to other governmental units	378	-	-	66,595	66,973
Deferred revenue	6,366	878,998	-	31,785	917,149
Total liabilities	2,455,893	2,235,580	-	1,017,429	5,708,902
Fund Balances (Deficit)					
Reserved for other purposes (Note 10)	447,400	-	-	-	447,400
Unreserved:					
Designated - Reported in:					
General Fund	412,021	-	-	-	412,021
Capital Projects Fund	-	-	-	1,181,904	1,181,904
Undesignated - Reported in:					
General Fund	1,421,336	-	-	-	1,421,336
Special Revenue Funds	-	(182,397)	-	8,624,032	8,441,635
Debt Service Funds	-	-	3,549	225,263	228,812
Total fund balances (deficit)	2,280,757	(182,397)	3,549	10,031,199	12,133,108
Total liabilities and fund balances (deficit)	\$ 4,736,650	\$ 2,053,183	\$ 3,549	\$ 11,048,628	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	64,524,388
Net pension asset is not a financial resource and is not reported in the funds	580,921
Grant revenue not collected within 60 days of year end is recognized as revenue, but shown as governmental revenue.	77,785
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(21,262,350)
A portion of Internal Service Funds is included as part of governmental activities	207,343
Net assets of governmental activities	\$ 56,261,195

City of Southgate, Michigan

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2005

	Major Funds			Other	Total
	General	Community	Building Authority	Nonmajor	Total
	Fund	Development	Fund	Governmental	Governmental
		Block Grant		Funds	Funds
		Fund	Fund		
Revenues					
Property taxes	\$ 11,536,399	\$ -	\$ -	\$ 2,138,868	\$ 13,675,267
Federal sources	121,819	634,198	-	1,076,927	1,832,944
State sources	3,521,752	-	-	1,656,446	5,178,198
Local sources	-	-	-	-	-
Charges for services	989,529	-	-	182,668	1,172,197
Licenses and permits	591,895	-	-	-	591,895
Fines and forfeitures	1,816,912	-	-	-	1,816,912
Interest and rentals	556,817	-	3,387	176,762	736,966
Special assessments	-	-	-	1,149,038	1,149,038
Other	167,725	-	692,195	516,345	1,376,265
Total revenues	19,302,848	634,198	695,582	6,897,054	27,529,682
Expenditures - Current					
General government	4,154,982	-	-	287,579	4,442,561
Public services	4,454,371	274,526	-	4,637,440	9,366,337
Public safety	8,663,248	-	-	5,231	8,668,479
Cultural and recreation	1,588,264	-	-	-	1,588,264
Capital outlay	-	-	-	243,942	243,942
Debt service	-	-	1,110,475	298,087	1,408,562
Total expenditures	18,860,865	274,526	1,110,475	5,472,279	25,718,145
Excess of Revenues Over (Under) Expenditures	441,983	359,672	(414,893)	1,424,775	1,811,537
Other Financing Sources (Uses)					
Transfers in	-	-	418,431	699,000	1,117,431
Transfers out	(606,958)	-	-	(598,328)	(1,205,286)
Total other financing sources (uses)	(606,958)	-	418,431	100,672	(87,855)
Net Change in Fund Balances	(164,975)	359,672	3,538	1,525,447	1,723,682
Fund Balances (Deficit) - Beginning of year	2,445,732	(542,069)	11	8,505,752	10,409,426
Fund Balances (Deficit) - End of year	<u>\$ 2,280,757</u>	<u>\$ (182,397)</u>	<u>\$ 3,549</u>	<u>\$ 10,031,199</u>	<u>\$ 12,133,108</u>

City of Southgate, Michigan

Governmental Funds Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 1,723,682**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	3,400,691
Depreciation on capital assets reported on governmental funds report as capital outlays expenditures	(2,484,134)
Governmental funds do not report a gain or loss on the disposal of assets, but records proceeds from the disposal as revenue; in the statement of activities, the gain or loss on disposal is calculated based on the net book value of the asset and the proceeds received	(307,578)
Change in the net pension asset is recorded on the statement of activities	(29,189)
Net change in revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(244,676)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	739,297
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when incurred in the statement of activities	(64,389)
Internal Service Funds are also included as governmental activities	(20,301)

Change in Net Assets of Governmental Activities **\$ 2,713,403**

City of Southgate, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise Funds			Internal Service Fund - Workers' Compensation
	Water and Sewer	Golf Course	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 732,604	\$ 127,065	\$ 859,669	\$ 408,454
Receivables - Net	1,891,640	2,359	1,893,999	431
Due from other funds	4,491	-	4,491	-
Due from other governmental units	38,867	-	38,867	-
Inventories	3,032	-	3,032	-
Total current assets	2,670,634	129,424	2,800,058	408,885
Noncurrent assets:				
Restricted assets (Note 9)	3,702,585	-	3,702,585	-
Investment in joint ventures (Note 15)	252,509	-	252,509	-
Capital assets	30,305,465	786,552	31,092,017	-
Total noncurrent assets	34,260,559	786,552	35,047,111	-
Total assets	36,931,193	915,976	37,847,169	408,885
Liabilities				
Current liabilities:				
Accounts payable	929,426	40,726	970,152	13,312
Accrued and other liabilities	43,292	8,400	51,692	50,000
Due to other funds	83,161	256,584	339,745	-
Current portion of long-term debt	1,072,120	-	1,072,120	-
Total current liabilities	2,127,999	305,710	2,433,709	63,312
Noncurrent liabilities:				
Provision for compensated absences - Net of current portion	121,586	-	121,586	-
Long-term debt - Net of current portion	12,270,694	-	12,270,694	-
Total noncurrent liabilities	12,392,280	-	12,392,280	-
Total liabilities	14,520,279	305,710	14,825,989	63,312
Net Assets				
Invested in capital assets - Net of related debt	16,962,651	786,552	17,749,203	
Restricted	3,702,585	-	3,702,585	
Unrestricted	1,745,678	(176,286)	1,569,392	345,573
Total net assets	<u>\$ 22,410,914</u>	<u>\$ 610,266</u>	23,021,180	<u>\$ 345,573</u>
Amounts reported for business-type activities in the statement of net assets are different because a portion of Internal Service Funds is included as part of business-type activities				138,229
Net assets of business-type activities			<u>\$ 23,159,409</u>	

City of Southgate, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise Funds			Governmental Activities - Internal Service Fund - Workers' Compensation
	Water and Sewer	Golf Course	Total	
Operating Revenues				
Water consumption	\$ 2,052,186	\$ -	\$ 2,052,186	\$ -
Sewage disposal charges	2,610,672	-	2,610,672	-
Assessments	548,953	-	548,953	-
Other	287,068	-	287,068	44,868
Greens fees and miscellaneous	-	527,596	527,596	-
Total operating revenues	5,498,879	527,596	6,026,475	44,868
Operating Expenses				
Cost of water produced/purchased	1,232,554	-	1,232,554	-
Cost of sewage treatment	1,426,123	-	1,426,123	-
Operation and maintenance	1,790,756	455,883	2,246,639	-
Overhead and other	387,073	45,786	432,859	-
Depreciation	855,453	56,059	911,512	-
Contractual services	-	-	-	87,646
Total operating expenses	5,691,959	557,728	6,249,687	87,646
Operating Loss	(193,080)	(30,132)	(223,212)	(42,778)
Nonoperating Revenue (Expenses)				
Property tax collections - EPA levy	1,179,896	-	1,179,896	-
Gain on sale of asset	109	-	109	-
Investment income	105,806	996	106,802	8,944
Interest expense	(363,440)	-	(363,440)	-
Income (Loss) - Before contributions	729,291	(29,136)	700,155	(33,834)
Capital Contributions - Donated water and sewer lines	378,830	-	378,830	-
Transfers In	-	27,855	27,855	-
Transfers Out	(40,000)	-	(40,000)	-
Change in Net Assets	1,068,121	(1,281)	1,066,840	(33,834)
Net Assets - Beginning of year	21,342,793	611,547	21,954,340	379,407
Net Assets - End of year	<u>\$ 22,410,914</u>	<u>\$ 610,266</u>	<u>\$ 23,021,180</u>	<u>\$ 345,573</u>
Net Change in Net Assets			\$ 1,066,840	
Total Enterprise Funds - Internal Service Funds are also included as business-type activities			(13,534)	
Change in Net Assets of Business-type Activities			<u>\$ 1,053,306</u>	

City of Southgate, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Enterprise Funds		Internal Service Funds
	Water and Sewer	Golf Course	Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 5,785,067	\$ 528,076	\$ 44,570
Payments to suppliers	(2,523,699)	(428,750)	-
Payments to employees	(2,128,292)	(46,492)	-
Claims paid	-	-	(80,356)
Net cash provided by (used in) operating activities	1,133,076	52,834	(35,786)
Cash Flows from Noncapital and Related Financing Activities -			
Interfund transfers	(40,000)	27,855	-
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(717,772)	(43,456)	-
Proceeds from sale of assets	3,685	-	-
Principal and interest paid on capital debt	(1,432,542)	-	-
Property tax collection	1,179,896	-	-
Net cash used in capital and related financing activities	(966,733)	(43,456)	-
Cash Flows from Investing Activities - Interest received on investments	105,806	996	8,944
Net Increase (Decrease) in Cash and Cash Equivalents	232,149	38,229	(26,842)
Cash and Cash Equivalents - Beginning of year	1,113,402	88,836	435,296
Cash and Cash Equivalents - End of year	<u>\$ 1,345,551</u>	<u>\$ 127,065</u>	<u>\$ 408,454</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 732,604	\$ 127,065	\$ 408,454
Restricted investments (Note 9)	612,947	-	-
Total cash and cash equivalents	<u>\$ 1,345,551</u>	<u>\$ 127,065</u>	<u>\$ 408,454</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (193,080)	\$ (30,132)	\$ (42,778)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	855,453	56,059	-
Changes in assets and liabilities:			
Receivables	210,931	480	(298)
Due from other governmental units	(38,867)	-	-
Other assets	114,124	-	-
Accounts payable	134,978	(1,447)	7,290
Accrued and other liabilities	5,287	(706)	-
Compensated absence	44,250	-	-
Interfund activity	-	28,580	-
Net cash provided by (used in) operating activities	<u>\$ 1,133,076</u>	<u>\$ 52,834</u>	<u>\$ (35,786)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, the County of Wayne used the City's assets held at the County to pay debt principal of \$804,102 and interest of \$329,425.

City of Southgate, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 10,779,450	\$ 247,264
Investments:		
U.S. government securities	9,907,040	-
Stocks and mutual funds	40,965,330	-
Bonds	4,497,226	-
Other	1,687,121	-
Receivables	<u>256,032</u>	<u>200</u>
 Total assets	 68,092,199	 <u><u>\$ 247,464</u></u>
Liabilities		
Accounts payable	10,909	\$ 6,766
Due to other governmental units	-	12,424
Cash bonds and deposits	<u>-</u>	<u>228,274</u>
 Total liabilities	 <u>10,909</u>	 <u><u>\$ 247,464</u></u>
 Net Assets - Held in trust for pension and other employee benefits	 <u><u>\$ 68,081,290</u></u>	

City of Southgate, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2005

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 2,218,504
Net increase in fair value of investments	2,123,647
Investment expense	<u>(458,399)</u>
Net investment income	3,883,752
Contributions:	
Employer	2,562,271
Employee	<u>459,728</u>
Total contributions	<u>3,021,999</u>
Total additions	6,905,751
Deductions	
Benefit payments	5,579,674
Refunds of contributions	<u>25,934</u>
Total deductions	<u>5,605,608</u>
Net Income - Before transfers	1,300,143
Transfers - Net	<u>100,000</u>
Net Increase in Net Assets Held for Pension Benefits	1,400,143
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>66,681,147</u>
End of year	<u><u>\$ 68,081,290</u></u>

City of Southgate, Michigan

Component Units Statement of Net Assets June 30, 2005

	Tax Increment Financing Authority	Downtown Development Authority	Totals
Assets			
Cash and investments	\$ 1,171,037	\$ 223,842	\$ 1,394,879
Other receivables	44,199	-	44,199
Due from other governmental units - City Building Authority	71,181	-	71,181
Total assets	1,286,417	223,842	1,510,259
Liabilities			
Accounts payable	57,627	10,780	68,407
Due to other governmental units	1,201,970	-	1,201,970
Total liabilities	1,259,597	10,780	1,270,377
Net Assets - Unrestricted	\$ 26,820	\$ 213,062	\$ 239,882

City of Southgate, Michigan

	Program Revenues		
	Expenses	Charges for Services	Capital Grants and Contributions
Tax Increment Financing Authority -			
Redevelopment	\$ 1,543,403	\$ 12,000	\$ 761,000
Downtown Development Authority -			
General government	<u>42,173</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,585,576</u>	<u>\$ 12,000</u>	<u>\$ 761,000</u>

General revenues:
 Property taxes
 Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Tax Increment Financing Authority	Downtown Development Authority	Total
\$ (770,403)	\$ -	\$ (770,403)
-	(42,173)	(42,173)
(770,403)	(42,173)	(812,576)
1,095,801	160,988	1,256,789
8,349	-	8,349
1,104,150	160,988	1,265,138
333,747	118,815	452,562
(306,927)	94,247	(212,680)
<u>\$ 26,820</u>	<u>\$ 213,062</u>	<u>\$ 239,882</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Southgate, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Southgate:

Reporting Entity

The City of Southgate is governed by an elected mayor and elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units - The City of Southgate Building Authority (the "Building Authority") is governed by a board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. The City is involved in the purchase, by lease contract, of recreation facilities and related improvements and a library building addition from the Building Authority. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the Debt Service Funds.
- b. Fixed assets (completed construction projects) and remaining amounts due on bonds issued by the Building Authority are reported in the governmental activities statement of net assets (deficit).

Discretely Presented Component Units - The Tax Increment Financing Authority's (the "Authority") governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements can be obtained by writing to the City of Southgate.

Note I - Summary of Significant Accounting Policies (Continued)

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council. In addition, the DDA's budget is subject to approval by the City.

The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 15.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for community development grants and rehabilitation lien activity.

Building Authority Fund - The Building Authority Fund consists of operations related to the issuance and repayment of debt and the construction of facilities.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Golf Course Fund - The Golf Course Fund accounts for the activities of the clubhouse operations and golf course operations.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, mainly on a cost-reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Policemen and Firemen and Municipal Employees' Retirement Systems and their related retiree health care funds, which accumulate resources for pension benefit payments to qualified police and fire and municipal retirees.

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water and sewer sales and greens fees. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation of the City totaled \$782 million, on which ad valorem taxes levied consisted of 10.1968 mills for the City's operating purposes, 2.1283 mills for refuse, 2.7113 mills for Act 345 police and fire retirement, .9725 mills for the library's operating purposes, 1.9449 mills for road construction, and 1.5192 mills for the EPA judgment levy. The ad valorem taxes levied raised \$7,500,000 for operation, \$1,600,000 for refuse, \$2,000,000 for police and fire retirement, \$700,000 for the library's operation, \$1,400,000 for road construction, and \$1,200,000 for the EPA judgment levy. These amounts are recognized in the respective General, Special Revenue, Water and Sewer, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The bonds of the Water and Sewer Fund require amounts to be set aside for debt service principal and interest, and a bond reserve. In addition, a portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	30-50 years
Water and sewer distribution systems	50-75 years
Land improvements	20 years
Buildings and building improvements	50 years
Vehicles	8-10 years
Equipment and machinery	10-20 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before 90 days prior to the commencement of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one month in advance thereof by the clerk.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of general government nondepartmental expenditures.
- The Community Development Block Grant Fund has not been budgeted on a fiscal year basis consistent with the City, and therefore, the financial activity has been omitted from the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual	Variance
General government:			
Attorney	\$ 175,000	\$ 176,872	\$ (1,872)
Treasurer	291,833	298,897	(7,064)
Nondepartmental	2,605,741	2,699,032	(93,291)
Public safety:			
Police	5,593,613	5,604,946	(11,333)
Fire	2,978,515	3,050,541	(72,026)
Police and Fire Civil Service Commission	6,800	7,060	(260)
Public works:			
Sanitation	1,534,046	1,578,739	(44,693)
City garage	502,874	529,595	(26,721)
Cultural and recreation:			
Recreation	537,023	548,028	(11,005)
Civic center	868,092	922,027	(53,935)
28th District Court	1,196,742	1,258,523	(61,781)

Note 2 - Stewardship, Compliance, and Accountability (Continued)

These unfavorable variances in the General Fund were caused by unanticipated expenditures that became necessary during the year.

Fund Deficits - The City has accumulated fund deficits in the Community Development Block Grant Fund and the District Court Capital Improvement Fund.

The Community Development Block Grant Fund deficit is \$182,397. The deficit is a result of federal reimbursement of eligible costs not being received within 60 days of the year end and because amounts were spent in excess of current grant funding. The City expects to use future grant funding to eliminate the deficit.

The District Court Capital Improvement Fund deficit is \$4,083. The deficit will be eliminated through future charges for service collections.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds and retiree health care funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized under the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$15,202,663 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment Type (all in Pension Funds)	Fair Value	Investment Maturities		
		Less than 5 Years	5 to 15 Years	Over 15 Years
U.S. Treasury notes	\$ 3,816,831	\$ 2,814,101	\$ 1,002,730	\$ -
U.S. federal agencies	6,090,212	2,602,741	3,350,809	136,662
Mortgage-backed securities	1,687,119	333,204	1,353,915	-
Corporate bonds	4,288,443	1,544,470	2,539,894	204,079
Foreign bonds	208,782	46,357	162,425	-
Total	<u>\$ 16,091,387</u>	<u>\$ 7,340,873</u>	<u>\$ 8,409,773</u>	<u>\$ 340,741</u>

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type (all in Pension Funds)	Fair Value	Rating	Rating Organization
U.S. federal agencies	\$ 1,910,622	AAA	Standard and Poor's
U.S. federal agencies	4,179,590	Not rated	
Mortgage-backed securities	1,818,038	Not rated	
Corporate and foreign bonds	1,032,166	AAA	Standard and Poor's
Corporate and foreign bonds	195,411	AA-	Standard and Poor's
Corporate and foreign bonds	758,726	A+	Standard and Poor's
Corporate and foreign bonds	614,933	A	Standard and Poor's
Corporate and foreign bonds	384,323	A-	Standard and Poor's
Corporate and foreign bonds	190,504	BBB+	Standard and Poor's
Corporate and foreign bonds	184,866	BBB+	Standard and Poor's
Corporate and foreign bonds	330,841	BBB-	Standard and Poor's
Corporate and foreign bonds	805,456	Not Rated	
Money market funds	8,331,900	AAA	Standard and Poor's
Pooled investments	12,775,195	Not rated	

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency-denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

Investment Type (all in Pension Funds)	Currency	Maturity	Fair Value
Pooled Foreign Investments	Various	N/A	\$ 5,635,419

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Receivables and Deferred Revenue

Receivables as of year end are as follows:

	Governmental Activities				Proprietary Funds			Component
	General	Community	Building	Nonmajor and	Water and	Golf	Internal Service	Unit
	Fund	Development	Authority	Other Funds	Sewer	Course	Fund - Workers'	TIFA
		Block Grant					Compensation	
Receivables:								
Taxes	\$ 310,315	\$ -	\$ -	\$ 50,594	\$ -	\$ -	\$ -	\$ 360,909
Liens	-	796,122	-	-	-	-	-	796,122
Special assessments	-	-	-	1,076,955	-	-	-	1,076,955
Customer	-	-	-	-	1,881,846	-	-	1,881,846
Interest and other	9,555	-	3	16,367	9,794	2,359	431	38,509
								44,199
Net receivables	\$ 319,870	\$ 796,122	\$ 3	\$ 1,143,916	\$ 1,891,640	\$ 2,359	\$ 431	\$ 4,154,341
								\$ 44,199

The City has not recorded an allowance for uncollected accounts related the receivables discussed above.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. All funds and governmental and business-type activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ -	\$ 10,223
Community Development Block Grant:		
Liens	-	801,213
Reimbursements	77,785	-
Grants received prior to meeting		
all eligibility requirements	-	27,928
Total	\$ 77,785	\$ 839,364

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2004	Reclassifications and Adjustments	Additions	Deletions	Balance June 30, 2005
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 3,405,814	\$ -	\$ 4,307	\$ (27,471)	\$ 3,382,650
Construction in progress	834,033	621,028	2,022,451	-	3,477,512
Subtotal	4,239,847	621,028	2,026,758	(27,471)	6,860,162
Capital assets being depreciated:					
Land improvements	1,283,229	(25,233)	18,497	-	1,276,493
Buildings and improvements	33,243,118	11,785	7,653	-	33,262,556
Vehicles	4,004,751	(912,023)	143,840	(727,200)	2,509,368
Equipment and machinery	7,417,754	935,432	318,681	(873,400)	7,798,467
Infrastructure	55,996,329	(609,202)	885,262	-	56,272,389
Subtotal	101,945,181	(599,241)	1,373,933	(1,600,600)	101,119,273
Accumulated depreciation:					
Land improvements	574,125	-	54,198	-	628,323
Buildings and improvements	5,295,604	-	665,516	-	5,961,120
Vehicles	1,816,713	21,787	134,175	(657,794)	1,314,881
Equipment and machinery	5,876,962	-	328,074	(662,699)	5,542,337
Infrastructure	28,706,215	-	1,302,171	-	30,008,386
Subtotal	42,269,619	21,787	2,484,134	(1,320,493)	43,455,047
Net capital assets being depreciated	59,675,562	(621,028)	(1,110,201)	(280,107)	57,664,226
Net capital assets	\$ 63,915,409	\$ -	\$ 916,557	\$ (307,578)	\$ 64,524,388

Certain amounts reported in governmental activities capital assets have been reclassified to conform with the current presentation.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

	Balance July 1, 2004	Reclassifications and Adjustments	Additions	Deletions	Balance June 30, 2005
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 169,444	\$ -	\$ -	\$ -	\$ 169,444
Construction in progress	577,140	(118,614)	227,042	-	685,568
Subtotal	746,584	(118,614)	227,042	-	855,012
Capital assets being depreciated:					
Land improvements	613,369	-	6,826	-	620,195
Water and sewer distribution systems	39,436,637	118,614	718,740	-	40,273,991
Buildings and building improvements	832,389	37,500	30,064	-	899,953
Vehicles	1,542,502	-	135,641	(251,351)	1,426,792
Equipment and machinery	782,310	970	21,745	(25,714)	779,311
Subtotal	43,207,207	157,084	913,016	(277,065)	44,000,242
Accumulated depreciation:					
Land improvements	181,108	-	18,026	-	199,134
Water and sewer distribution systems	10,909,605	-	722,108	-	11,631,713
Buildings and building improvements	242,667	37,500	17,638	-	297,805
Vehicles	1,127,618	-	104,481	(248,738)	983,361
Equipment and machinery	625,746	970	49,259	(24,751)	651,224
Subtotal	13,086,744	38,470	911,512	(273,489)	13,763,237
Net capital assets being depreciated	30,120,463	118,614	1,504	(3,576)	30,237,005
Net capital assets	\$ 30,867,047	\$ -	\$ 228,546	\$ (3,576)	\$ 31,092,017

Certain amounts reported in business-type activities capital assets have been reclassified to conform with the current presentation.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 1,237,509
Public safety	279,900
Public works	287,828
Recreation and culture	610,809
District Court	<u>68,088</u>

Total governmental activities	<u><u>\$ 2,484,134</u></u>
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Business-type activities:

Water and sewer	\$ 855,453
Golf	<u>56,059</u>

Total business-type activities	<u><u>\$ 911,512</u></u>
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City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Proprietary Fund - Municipal Golf Course	\$ 30,000
	Community Development Block Grant Fund	1,356,582
	Other governmental funds	<u>210,107</u>
	Total General Fund	1,596,689
Community Development Block Grant Fund	Proprietary Fund - Water and Sewer Fund	83,161
	General Fund	1,047,175
	Other governmental funds	<u>7,519</u>
	Total Community Development Block Grant Fund	1,137,855
Other governmental funds	Proprietary Fund - Municipal Golf Course	224,089
	Other governmental funds	<u>49,450</u>
	Total other governmental funds	<u>273,539</u>
	Total governmental funds	<u><u>\$ 3,008,083</u></u>
Due to/from Other Funds		
Water and Sewer Fund	Severance Reserve Fund	\$ 1,996
	Golf Course Fund	<u>2,495</u>
	Total Proprietary Funds	<u><u>\$ 4,491</u></u>

Interfund balances arise from the centralized disbursement system as well as reimbursements.

Receivable Fund	Payable Fund	Amount
Due to/from Component Units		
Other governmental funds	Tax Increment Finance Authority	<u><u>\$ 1,201,970</u></u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out			
	General Fund	Other Governmental Funds	Proprietary Funds	Total
Transfers in:				
Building Authority Fund	\$ 306,958 (1)	\$ 111,473	\$ -	\$ 418,431
Other governmental funds	200,000	459,000 (2)	40,000	699,000
Golf Course	-	27,855	-	27,855
Fiduciary funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total	<u>\$ 606,958</u>	<u>\$ 598,328</u>	<u>\$ 40,000</u>	<u>\$ 1,245,286</u>

(1) Transfers for capital expenditures

(2) Transfers of \$157,163 were for debt service and \$301,837 were for operations

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Original Amount	Interest Rate Range	Maturity Payment Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities									
General obligation bonds:									
Library Building Authority	\$ 1,515,000	2.0%-4.4%	2023	\$60,000- \$105,000	\$ 1,445,000	\$ -	\$ 60,000	\$ 1,385,000	\$ 60,000
Refunding Bonds									
Ice Arena Building Authority	3,750,000	5.0%-5.35%	2021	\$135,000- \$300,000	3,500,000	-	125,000	3,375,000	135,000
Recreation Facility Building Authority	9,995,000	4.0%-5.0%	2026	\$250,000- \$690,000	9,545,000	-	240,000	9,305,000	250,000
2000 Michigan Transportation Fund installment purchase agreements	695,000	6.0%	2014	\$75,000	625,000	-	50,000	575,000	50,000
2003 Police computer system installment purchase agreement	700,000	3.19%	2013	\$64,452- \$79,641	638,851	-	62,496	576,355	64,452
Parking lot improvements installment purchase agreement	649,500	5.17%	2018	\$43,300	562,900	-	43,300	519,600	43,300
City of Southgate Aerial Ladder Fire Truck installment purchase agreement	614,899	4.93%	2010	\$62,694- \$75,977	405,947	-	59,800	346,147	62,694
28th District Court Expansion installment purchase agreement	950,000	4.35%	2018	\$50,180- \$80,607	901,095	-	48,701	852,394	50,180
Special assessment bond	700,000	6.7%-6.9%	2005	\$50,000	100,000	-	50,000	50,000	50,000
Total governmental activities					\$ 17,723,793	\$ -	\$ 739,297	\$ 16,984,496	\$ 765,626
Tax tribunal	N/A	N/A	N/A	N/A	\$ 412,021	\$ -	\$ -	\$ 412,021	\$ 412,021
Self-insurance claims	N/A	N/A	N/A	N/A	561,600	353,025	154,125	760,500	380,250
Compensated absence	N/A	N/A	N/A	N/A	3,239,844	54,843	189,354	3,105,333	608,023
Total compensated absence and other					\$ 4,213,465	\$ 407,868	\$ 343,479	\$ 4,277,854	\$ 1,400,294
Business-type Activities									
General obligation bonds:									
Water and Sewer Bond 1993	1,545,000	4.9%-5.15%	2005	\$110,000	\$ 225,000	\$ -	\$ 115,000	\$ 110,000	\$ 110,000
Water and Sewer Bond 1987	1,700,000	7.3%-6.0%	2006	\$150,000-	450,000	-	150,000	300,000	150,000
Sewage Disposal System bonds (17 issues)	17,922,267	2.0%-5.45%	2022	\$812,120- \$1,031,270	13,736,916	-	804,102	12,932,814	812,120
Total business-type activities					\$ 14,411,916	\$ -	\$ 1,069,102	\$ 13,342,814	\$ 1,072,120

The Building Authority bonds represent the financing to construct the Fun and Fitness Center, ice arena, and library expansion. The assets of the Tax Increment Financing Authority district have been pledged for repayment of the Center debt.

The special assessment bond represents the financing of public improvements that benefit a specific district; this district is specially assessed, at least in part, for the cost of the improvements. At June 30, 2005, the City has \$44,824 set aside in the SCI541 (Helen, Kennebec, and Poplar Streets) Debt Service Fund for repayment of these bonds. In addition, there is approximately \$10,000 of special assessments receivable in the future. Under Michigan law, the City is secondarily liable for payment of these bonds.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows (other than tax tribunal, self-insurance claims, and compensated absences):

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 765,626	\$ 797,974	\$ 1,563,600	\$ 1,072,120	\$ 350,006	\$ 1,422,126
2007	743,012	765,474	1,508,486	993,281	301,618	1,294,899
2008	775,742	732,785	1,508,527	870,411	275,977	1,146,388
2009	813,708	698,374	1,512,082	882,456	259,128	1,141,584
2010	846,987	662,313	1,509,300	911,985	229,578	1,141,563
2011-2015	4,284,316	2,739,413	7,023,729	4,900,023	803,987	5,704,010
2016-2020	4,410,105	1,781,299	6,191,404	3,636,104	233,076	3,869,180
2021-2025	3,655,000	689,140	4,344,140	76,434	-	76,434
2026	690,000	34,500	724,500	-	-	-
Total	<u>\$ 16,984,496</u>	<u>\$ 8,901,272</u>	<u>\$ 25,885,768</u>	<u>\$ 13,342,814</u>	<u>\$ 2,453,370</u>	<u>\$ 15,796,184</u>

Total interest incurred for the City for the year approximated \$1,195,000.

Note 8 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Surplus at July 1, 2004	\$ 19,359
Building permit revenue	518,183
Less direct costs and indirect costs	<u>(602,061)</u>
Cumulative deficit at June 30, 2005	<u>\$ (64,519)</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Restricted Assets

Enterprise Funds

A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds. The restricted assets at June 30, 2005 consist of the following:

User fee - Cash and certificates of deposit	\$ 612,947
Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments	<u>3,089,638</u>
Total restricted assets	<u>\$ 3,702,585</u>

Net assets in the amount of \$3,702,585 have been restricted. This amount represents restricted assets arising from the water and sewer public improvement, program user charge, as well as unspent property tax collections remitted to the County for future debt service payments on the Wayne County bonds noted above.

Note 10 - Reserved and Designated Fund Balances

The City has reserved fund balances in the following funds:

General Fund:

Unspent property tax proceeds - Sanitation	\$ 429,525
Unspent property tax proceeds - Police and fire pension	<u>17,875</u>
Total General Fund	<u>\$ 447,400</u>

The City has designated fund balance in the following funds:

General Fund - Tax tribunal	\$ 412,021
Other nonmajor governmental funds - Capital Projects Fund - Various projects	<u>1,181,904</u>

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for benefit claims; the City is uninsured for general liability, property loss, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for general, liability, and workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2005	2004
Unpaid claims - Beginning of year	\$ 611,600	\$ 609,371
Incurring claims - Including claims incurred but not reported	398,865	340,633
Claim payments	<u>(199,965)</u>	<u>(338,404)</u>
Unpaid claims - End of year	<u>\$ 810,500</u>	<u>\$ 611,600</u>

Recorded in the accrued and other liabilities of the General Fund is a liability for \$50,000 related to workers' compensation claims.

Note 12 - Retirement Systems

Plan Description - The City contributes to the Municipal Employees' Retirement System, covering general City employees, and the Policemen and Firemen Retirement System, covering certain police and fire department personnel, which are the administrators for the single-employer defined benefit pension plans. These systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuations, membership consisted of the following:

	Policemen and Firemen Retirement System	Municipal Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	74	65
Current active employees	67	96

The plans do not issue separate financial reports.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the systems for these employees was established by City ordinances, State statute (P.A. 345), and negotiations with the City's collective bargaining units. The Municipal Employees' Retirement System requires a contribution from the employees of 4.5 percent of annual salary for members hired prior to July 1, 1991 and 3 percent of annual salary for members hired on or after July 1, 1991 up to the Social Security wage base plus 5 percent of annual salary in excess of the Social Security wage base. The Policemen and Firemen Retirement System requires contributions from the employees of 5 percent for policemen and firemen and 7.5 percent for command officers hired before January 1, 1981. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Retirement Systems (Continued)

Annual Pension Cost - For the year ended June 30, 2005, the City's systems had the following activity:

	Annual Required Contribution	Interest on Net Pension Asset	Adjustment to Annual Required Contribution	Annual Pension Cost	Actual Contribution
Policemen and Firemen Retirement System	\$ 1,110,060	\$ (33,208)	\$ 57,241	\$ 1,134,093	\$ 1,110,060
Municipal Employees' Retirement System	501,299	(12,778)	20,967	509,488	501,299

The annual required contribution was determined as part of an actuarial valuation at June 30, 2003 using the entry actual age cost method. Significant actuarial assumptions include the following:

	Policemen and Firemen Retirement System	Municipal Employees' Retirement System
Investment rate of return*	7.5%	7.5%
Projected salary increases*	4.7%-8.3%	4.5%-17.1%
* Includes inflation at	4.5%	4.5%
Cost of living adjustments	None	None

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 12 years for the Policemen and Firemen Retirement System and 13 years for the Municipal Employees' Retirement System.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2005

Note 12 - Retirement Systems (Continued)

The three-year trend information for the plans is as follows:

Policemen and Firemen Retirement System

	Fiscal Year Ended June 30		
	2005	2004	2003
Annual pension cost (APC)	\$ 1,134,093	\$ 399,029	\$ 146,443
Percentage of APC contributed	97.89	87.97	66.00
Net pension obligation (asset)	\$ (418,736)	\$ (439,736)	\$ (487,736)

Municipal Employees' Retirement System

	Fiscal Year Ended June 30		
	2005	2004	2003
Annual pension cost (APC)	\$ 509,488	\$ 259,371	\$ 211,625
Percentage of APC contributed	98.39	97.60	130.58
Net pension obligation (asset)	\$ (162,185)	\$ (170,374)	\$ (176,587)

Reserves

As of June 30, 2005, the Plan's legally required reserves have been fully funded as follows:

	Municipal Employees	Policemen and Firemen
Reserves for employees' contributions	\$ 1,674,428	\$ 2,615,830
Reserves for retired benefit payments	13,735,692	33,512,115

Note 13 - Postretirement Benefits

The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 139 retirees are eligible. In addition, 163 active employees may be entitled to benefits upon retirement. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,583,000. Premiums for life insurance amounted to approximately \$5,000 during the year ended June 30, 2005.

Note 13 - Postretirement Benefits (Continued)

During the year ended June 30, 1993, the City began prefunding for the liability for postemployment benefits related to employees covered under the Policemen and Firemen Retirement System based on an actuarial valuation performed for the year ended June 30, 1997. Significant actuarial assumptions used in determining the health care obligation for the Policemen and Firemen Retirement System include a rate of return on investments of present and future assets of 7.50 percent per year compounded annually and a long-term average assumed rate of premium increases of 5.5 percent to 15.0 percent per year. The accrued liability for health care as of June 30, 2005 is not known. The percentage of payroll employer contributions determined by the actuary range from 8.5 percent to 16.4 percent and is deemed by the actuary to be sufficient to sustain the fund for 25 years.

The net assets available for police and fire retirees at June 30, 2005 total \$1,080,663. The health care benefit activity related to the employees covered under the Policemen and Firemen Retirement System is recorded in the Act 345 Health Insurance Fund. Employer contributions made to this fund of \$886,743 were based on taxes collected through a special P.A. 345 millage and approximated the actuarially determined required contribution.

In addition to the Act 345 Health Insurance Fund discussed above, the City has established a Municipal Employees' Retiree Health Care Fund to prefund the liability for postemployment benefits related to employees covered under the Municipal Employees' Retirement System. Contributions are determined by management. Current year contributions of \$100,000 were transferred from the General Fund and net assets available at June 30, 2005 totaled \$1,283,526.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 14 - Commitments

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Disposal System. Twelve other communities and Wayne County were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$300,000,000, with the City's share estimated to be approximately \$20,000,000. During prior years, the County issued bonds on the City's behalf in the amount of approximately \$18,000,000. The bonds will be paid through a court-ordered judgment levy.

Note 15 - Joint Ventures

Southgate-Wyandotte Drainage District

The City is a member of the Southgate-Wyandotte Drainage District, a joint venture with the City of Wyandotte that provides drainage services to the residents of Southgate and Wyandotte. The venture is administered by the Wayne County Drainage Board. The City paid \$939,163 to Wayne County during the year for operation and maintenance.

The City of Southgate has approximately a 42 percent interest in the venture. The operations of the fund will be financed through assessments to the participating cities, Wayne County, and the State of Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Downriver Sewage Disposal System

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures." During the year, the City paid \$1,426,123 for operations of the system and \$1,133,527 for debt service.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, except as discussed in Note 14.

Note 15 - Joint Ventures (Continued)

The Downriver Sewage Disposal System has been authorized to issue three new bonds. The following is a summary of the City of Southgate's anticipated share of the bonds:

2005 SRF Bond issued in September 2005 - \$423,640

2005 Completion Bonds to be issued sometime in 2006 - \$1,081,210

2005 Capital Improvement Bonds to be issued sometime in 2007 - \$338,645

Financial statements for both joint ventures can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226.

Required Supplemental Information

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,445,732	\$ 2,445,732	\$ 2,445,732	\$ -
Resources (Inflows)				
Property taxes	11,935,683	11,935,683	11,536,399	(399,284)
Licenses and permits	673,000	673,000	591,895	(81,105)
Federal sources	62,600	30,000	121,819	91,819
State sources	3,371,953	3,585,300	3,521,752	(63,548)
Charges for services	960,900	960,900	989,529	28,629
Fines and forfeitures	1,451,983	1,451,983	1,816,912	364,929
Interest and rentals	366,061	366,061	556,817	190,756
Other	94,000	94,000	167,725	73,725
Reimbursements from other funds	1,429,700	1,429,700	1,292,244	(137,456)
Total resources (inflows)	20,345,880	20,526,627	20,595,092	68,465
Charges to Appropriations (Outflows)				
General government:				
City Council	99,298	99,298	98,291	1,007
Executive	163,493	163,493	162,855	638
Elections	72,980	72,980	70,139	2,841
Assessor	170,213	170,213	158,910	11,303
Attorney	175,000	175,000	176,872	(1,872)
Clerk	157,389	158,889	158,735	154
Civil Service Commission	3,500	2,000	830	1,170
Finance	373,637	373,637	364,142	9,495
Treasurer	291,833	291,833	298,897	(7,064)
Nondepartmental	2,605,741	2,605,741	2,699,032	(93,291)
Public safety:				
Police	5,550,365	5,593,613	5,604,946	(11,333)
Fire	2,956,195	2,978,515	3,050,541	(72,026)
Emergency preparedness	6,493	6,493	701	5,792
Police and Fire Civil Service Commission	5,300	6,800	7,060	(260)
Public Safety Commission	355	355	-	355
Public works:				
Public services	1,872,338	1,789,202	1,744,014	45,188
Sanitation	1,534,046	1,534,046	1,578,739	(44,693)
Building	590,895	585,395	565,425	19,970
Planning	15,000	40,000	36,598	3,402
City garage	470,674	502,874	529,595	(26,721)

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows)				
(Continued)				
Cultural and recreation:				
Recreation	\$ 537,023	\$ 537,023	\$ 548,028	\$ (11,005)
Civic Center	776,091	868,092	922,027	(53,935)
Senior Citizen Center	132,265	127,265	81,448	45,817
Cultural Commission	12,000	12,000	11,273	727
Heritage Days	26,650	26,650	24,168	2,482
Cable Commission	1,520	1,520	1,320	200
28th District Court	1,138,628	1,196,742	1,258,523	(61,781)
Transfers to other funds	606,958	606,958	606,958	-
Total charges to appropriations (outflows)	20,345,880	20,526,627	20,760,067	(233,440)
Fund Balance - End of year	\$ 2,445,732	\$ 2,445,732	\$ 2,280,757	\$ (164,975)

City of Southgate, Michigan

Required Supplemental information Municipal Employees' Retirement System Schedule of Funding Progress (dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	16.2	\$ 13.7	\$ (2.5)	118.2	\$ 2.8	-
06/30/98	18.3	14.7	(3.6)	124.5	2.9	-
06/30/99	20.1	17.0	(3.1)	118.2	3.0	-
06/30/00	21.6	17.9	(3.7)	120.7	3.5	-
06/30/01	22.8	18.4	(4.4)	123.9	3.7	-
06/30/02	23.0	19.4	(3.6)	118.6	3.9	-
06/30/03	22.5	21.8	(0.7)	103.2	3.6	-
06/30/04	21.8	22.8	1.0	95.6	4.1	24.4

Schedule of Employer Contributions

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
1998	\$ 187,617	\$ 134.64	\$ (99,394)
1999	121,931	169.54	(184,184)
2000	221,598	65.37	(107,453)
2001	221,409	99.42	(106,162)
2002	237,415	102.40	(111,871)
2003	211,625	130.58	(176,587)
2004	259,371	97.60	(170,374)
2005	509,488	98.39	(162,185)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	13 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0%-17.1%
*Includes inflation at	4.5%
Cost of living adjustments	Not applicable

City of Southgate, Michigan

Required Supplemental information Policemen and Firemen Retirement System Schedule of Funding Progress (dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 39.8	\$ 35.7	\$ (4.1)	111.5	\$ 4.0	-
06/30/98	45.4	37.7	(7.7)	120.4	4.2	-
06/30/99	50.4	40.2	(10.2)	125.4	4.4	-
06/30/00	54.3	43.6	(10.7)	124.5	4.8	-
06/30/01	56.4	43.5	(12.9)	129.7	4.7	-
06/30/02	55.2	47.5	(7.7)	116.2	4.9	-
06/30/03	50.7	50.8	0.1	99.8	4.5	-
06/30/04	47.6	52.7	5.10	90.3	5.1	100%

Schedule of Employer Contributions

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
1998	\$ 683,224	\$ 106.41	\$ (322,850)
1999	556,945	96.21	(301,734)
2000	303,804	100.86	(304,341)
2001	74,494	427.17	(548,064)
2002	127,374	78.55	(537,523)
2003	146,443	66.00	(487,736)
2004	399,029	87.97	(439,736)
2005	1,134,093	97.89	(418,736)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	12 years - open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.7%-8.3%
*Includes inflation at	4.5%
Cost of living adjustments	Not applicable

Other Supplemental Information

City of Southgate, Michigan

	Special Revenue Funds						
	Major Streets	Local Streets	Street Paving	Narcotics Enforcement	Guidance Center Grant	Severance Reserve	Southgate - Wyandotte Operation and Maintenance
Assets							
Cash and investments	\$ 1,318,040	\$ 1,767,144	\$ 1,268,261	\$ 40,970	\$ -	\$ 975,926	\$ 50,703
Receivables - Net	1,391	1,229	33,729	41	-	1,109	1,077,000
Due from other funds	-	49,450	-	-	-	-	224,089
Due from component unit	-	-	500,000	-	-	-	701,970
Due from other governmental units	192,558	75,009	-	-	66,595	-	-
Other	-	-	-	-	-	-	-
Total assets	\$ 1,511,989	\$ 1,892,832	\$ 1,801,990	\$ 41,011	\$ 66,595	\$ 977,035	\$ 2,053,762
Liabilities and Fund Balances (Deficit)							
Liabilities							
Accounts payable	\$ 28,664	\$ 5,548	\$ 154,393	\$ 60	\$ -	\$ 99,577	\$ 9,433
Due to other funds	120,513	38,841	-	-	-	4,494	7,519
Due to other governmental units	-	-	-	-	66,595	-	-
Deferred revenue	-	-	-	21,562	-	-	-
Total liabilities	149,177	44,389	154,393	21,622	66,595	104,071	16,952
Fund Balances (Deficit) -							
Unreserved							
Designated	-	-	-	-	-	-	-
Undesignated	1,362,812	1,848,443	1,647,597	19,389	-	872,964	2,036,810
Total fund balances (deficit)	1,362,812	1,848,443	1,647,597	19,389	-	872,964	2,036,810
Total liabilities and fund balances (deficit)	\$ 1,511,989	\$ 1,892,832	\$ 1,801,990	\$ 41,011	\$ 66,595	\$ 977,035	\$ 2,053,762

**Other Supplemental information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

		Debt Service Funds			Capital Projects Funds		Total Nonmajor Governmental Funds
Library	District Court Capital Improvement	SCI 541 Bond	Michigan Transportation Bond	Southgate - Wyandotte Drain	Capital Improvement Fund	Drake Street Construction Fund	
\$ 1,034,864	\$ 83,959	\$ 44,439	\$ 101,254	\$ 78,996	\$ 1,231,604	\$ 89,306	\$ 8,085,466
17,138	88	10,608	107	82	1,300	94	1,143,916
-	-	-	-	-	-	-	273,539
-	-	-	-	-	-	-	1,201,970
-	9,575	-	-	-	-	-	343,737
-	-	-	-	-	-	-	-
\$ 1,052,002	\$ 93,622	\$ 55,047	\$ 101,361	\$ 79,078	\$ 1,232,904	\$ 89,400	\$ 11,048,628
\$ 211,902	\$ -	\$ -	\$ -	\$ -	\$ 140,400	\$ -	\$ 649,977
-	97,705	-	-	-	-	-	269,072
-	-	-	-	-	-	-	66,595
-	-	10,223	-	-	-	-	31,785
211,902	97,705	10,223	-	-	140,400	-	1,017,429
-	-	-	-	-	1,092,504	89,400	1,181,904
840,100	(4,083)	44,824	101,361	79,078	-	-	8,849,295
840,100	(4,083)	44,824	101,361	79,078	1,092,504	89,400	10,031,199
\$ 1,052,002	\$ 93,622	\$ 55,047	\$ 101,361	\$ 79,078	\$ 1,232,904	\$ 89,400	\$ 11,048,628

City of Southgate, Michigan

	Special Revenue Funds						
	Major Streets	Local Streets	Street Paving	Narcotics Enforcement	Guidance Center Grant	Severance Reserve	Southgate - Wyandotte Operation and Maintenance
Revenues							
Property taxes	\$ -	\$ -	\$ 1,425,939	\$ -	\$ -	\$ -	\$ -
Federal sources	769,214	-	-	-	307,713	-	-
State sources	1,190,512	463,684	-	-	-	-	-
Charges for service	-	-	-	-	-	-	-
Interest income	44,794	31,880	17,355	429	-	21,079	13,967
Special assessments	-	-	-	-	-	-	1,137,044
Other	-	-	-	7,993	-	-	-
Total revenues	2,004,520	495,564	1,443,294	8,422	307,713	21,079	1,151,011
Expenditures							
Current:							
General government	-	-	-	-	-	189,354	-
Public services	1,438,790	472,278	937,248	-	307,713	-	939,163
Public safety	-	-	-	5,231	-	-	-
Capital outlay	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	1,438,790	472,278	937,248	5,231	307,713	189,354	939,163
Excess of Revenues Over (Under) Expenditures	565,730	23,286	506,046	3,191	-	(168,275)	211,848
Other Financing Sources (Uses)							
Operating transfers in	-	301,837	-	-	-	240,000	-
Operating transfers out	(384,000)	-	(75,000)	-	-	-	-
Total other financing sources (uses)	(384,000)	301,837	(75,000)	-	-	240,000	-
Net Change in Fund Balances	181,730	325,123	431,046	3,191	-	71,725	211,848
Fund Balances (Deficit) - Beginning of year	1,181,082	1,523,320	1,216,551	16,198	-	801,239	1,824,962
Fund Balances (Deficit) - End of year	\$ 1,362,812	\$ 1,848,443	\$ 1,647,597	\$ 19,389	\$ -	\$ 872,964	\$ 2,036,810

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2005

		Debt Service Funds			Capital Projects Funds		Total Nonmajor Governmental Funds
Library	District Court Capital Improvement	SCI 541 Bond	Michigan Transportation Bond	Southgate - Wyandotte Drain	Capital Improvement Fund	Drake Street Construction Fund	
\$ 712,929	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,138,868
-	-	-	-	-	-	-	1,076,927
-	-	-	-	-	2,250	-	1,656,446
-	179,251	-	-	-	-	3,417	182,668
13,678	1,128	2,380	2,390	1,797	22,116	3,769	176,762
-	-	11,994	-	-	-	-	1,149,038
18,495	1,000	-	-	-	488,857	-	516,345
745,102	181,379	14,374	2,390	1,797	513,223	7,186	6,897,054
-	-	-	-	6,001	92,224	-	287,579
542,248	-	-	-	-	-	-	4,637,440
-	-	-	-	-	-	-	5,231
-	-	-	-	-	243,942	-	243,942
-	160,249	55,676	82,162	-	-	-	298,087
542,248	160,249	55,676	82,162	6,001	336,166	-	5,472,279
202,854	21,130	(41,302)	(79,772)	(4,204)	177,057	7,186	1,424,775
-	-	75,000	82,163	-	-	-	699,000
(111,473)	-	-	-	-	(27,855)	-	(598,328)
(111,473)	-	75,000	82,163	-	(27,855)	-	100,672
91,381	21,130	33,698	2,391	(4,204)	149,202	7,186	1,525,447
748,719	(25,213)	11,126	98,970	83,282	943,302	82,214	8,505,752
<u>\$ 840,100</u>	<u>\$ (4,083)</u>	<u>\$ 44,824</u>	<u>\$ 101,361</u>	<u>\$ 79,078</u>	<u>\$ 1,092,504</u>	<u>\$ 89,400</u>	<u>\$ 10,031,199</u>

City of Southgate, Michigan

	Pension and Other Employee Benefit Trust Funds				
	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Totals
Assets					
Cash and investments	\$ 21,495,921	\$ 43,971,492	\$ 1,086,581	\$ 1,282,173	\$ 67,836,167
Receivables	75,029	174,659	4,991	1,353	256,032
Total assets	21,570,950	44,146,151	1,091,572	1,283,526	68,092,199
Liabilities					
Accounts payable	-	-	10,909	-	10,909
Due to other governmental units	-	-	-	-	-
Cash bonds and deposits	-	-	-	-	-
Total liabilities	-	-	10,909	-	10,909
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 21,570,950</u>	<u>\$ 44,146,151</u>	<u>\$ 1,080,663</u>	<u>\$ 1,283,526</u>	<u>\$ 68,081,290</u>

**Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
Year Ended June 30, 2005**

Agency Funds			
Senior			
Tax Collection	Citizens' Trust	Escrow	Totals
\$ 2,724	\$ 33,463	\$ 211,077	\$ 247,264
-	-	200	200
<u>\$ 2,724</u>	<u>\$ 33,463</u>	<u>\$ 211,277</u>	<u>\$ 247,464</u>
\$ -	\$ -	\$ 6,766	\$ 6,766
2,724	2,000	7,700	12,424
-	31,463	196,811	228,274
<u>\$ 2,724</u>	<u>\$ 33,463</u>	<u>\$ 211,277</u>	<u>\$ 247,464</u>

City of Southgate, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2005

	Municipal Employees' Retirement System	Policemen and Firemen Retirement System	Act 345 Health Insurance	Municipal Employees' Retiree Health Care	Totals
Additions					
Investment income:					
Interest and dividends	\$ 964,648	\$ 1,216,710	\$ 8,093	\$ 29,053	\$ 2,218,504
Net increase in fair value of investments	551,000	1,572,647	-	-	2,123,647
Investment expense	(115,900)	(342,499)	-	-	(458,399)
Net investment income	1,399,748	2,446,858	8,093	29,053	3,883,752
Contributions:					
Employer	565,468	1,110,060	886,743	-	2,562,271
Employee	195,120	264,608	-	-	459,728
Total contributions	760,588	1,374,668	886,743	-	3,021,999
Total additions	2,160,336	3,821,526	894,836	29,053	6,905,751
Deductions					
Benefit payments	1,283,199	3,274,764	1,021,711	-	5,579,674
Refunds of contributions	10,981	14,953	-	-	25,934
Total deductions	1,294,180	3,289,717	1,021,711	-	5,605,608
Net Additions (Reductions) -					
Before transfers	866,156	531,809	(126,875)	29,053	1,300,143
Transfers - Net	-	-	-	100,000	100,000
Net Increase (Decrease) in Net Assets Held for Pension Benefits	866,156	531,809	(126,875)	129,053	1,400,143
Net Assets Held in Trust for Pension Benefits					
Beginning of year	20,704,794	43,614,342	1,207,538	1,154,473	66,681,147
End of year	<u>\$ 21,570,950</u>	<u>\$ 44,146,151</u>	<u>\$ 1,080,663</u>	<u>\$ 1,283,526</u>	<u>\$ 68,081,290</u>

City of Southgate, Michigan

**Federal Awards
Supplemental Information
June 30, 2005**

City of Southgate, Michigan

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards	4-5
Schedule of Expenditures of Federal Awards	6
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9-10



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Independent Auditor's Report

To the Honorable Members of the Council
City of Southgate, Michigan

We have audited the basic financial statements of the City of Southgate, Michigan for the year ended June 30, 2005 and have issued our report thereon dated September 22, 2005. Those basic financial statements are the responsibility of the management of the City of Southgate, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Southgate, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 22, 2005

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A worldwide association of independent accounting firms

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Members of the Council
City of Southgate, Michigan

We have audited the financial statements of the City of Southgate, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Southgate, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Southgate, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Honorable Members of the Council
City of Southgate, Michigan

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 22, 2005

Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards

To the Honorable Members of the Council
City of Southgate, Michigan

Compliance

We have audited the compliance of the City of Southgate, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Southgate, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Southgate, Michigan's management. Our responsibility is to express an opinion on the City of Southgate, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Southgate, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Southgate, Michigan's compliance with those requirements.

In our opinion, the City of Southgate, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Honorable Members of the Council
City of Southgate, Michigan

Internal Control Over Compliance

The management of the City of Southgate, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Southgate, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 22, 2005

City of Southgate, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity	
		Project/Grant Number	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Wayne County Community Development Block Grants:	14.218		
Planning		04-27-20	\$ 15,190
Senior Citizen Service		04-27-05A	47,600
Administration		04-27-21A	14,995
Housing Rehab		04-27-14A	<u>196,742</u>
Total U.S. Department of Housing and Urban Development			274,527
Department of Health and Human Services - Build Mentally Healthy Communities - A Model of Mental Health Consultation to Child Care Settings (Serving Infants, Toddlers, and Preschoolers)	93.230		307,713
Federal Surface Transportation Funds - Passed through the Michigan Department of Transportation:			
Trenton Road	20.205		769,214
Northline Road	20.205		<u>546,558</u>
Total Federal Surface Transportation Funds			1,315,772
Federal Emergency Management Agency - Passed through the State of Michigan - State and Local Assistance:			
Fire Equipment	83.552		22,320
Cedarlawn/Oaklawn Sanitary Relief Sewer	83.552		<u>38,867</u>
Total Federal Emergency Management Agency			61,187
U.S. Department of Justice:			
Local Law Enforcement Block Grant	16.540	2002	25,438
Local Law Enforcement Block Grant	16.540	2003	14,994
Local Law Enforcement Block Grant	16.540	2004	11,484
COPS - Passed through Downriver Community Conference	16.710		<u>47,583</u>
Total U.S. Department of Justice			<u>99,499</u>
Total federal awards			<u><u>\$ 2,058,698</u></u>

City of Southgate, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,832,944
Federal revenue recognized as other revenue in the Water and Sewer Fund	38,867
Federal revenue recognized as capital grants and contributions in the Tax Increment Financing Authority - a Component Unit of the City	546,558
Federal revenue not recognized in the financial statements because funds were not received within 60 days	77,785
Federal revenue reported in the financial statements, but expended in a prior period	<u>(437,456)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 2,058,698</u>

City of Southgate, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Southgate, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal funds were provided to subrecipients as follows:

CFDA Numbers	Federal Program	Amount
93.230	Department of Health and Human Services - Build Mentally Healthy Communities - A Model of Mental Health Consultation to Child Care Settings (Serving Infants, Toddlers, and Preschoolers)	\$ 307,713

City of Southgate, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA		
Numbers	Federal Program	Amount
20.205	Federal Surface Transportation Funds - Passed through the Michigan Department of Transportation	\$1,315,772

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Southgate, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

September 22, 2005

Honorable Mayor and Members
of the City Council
City of Southgate
14400 Dix Toledo Road
Southgate, MI 48195

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Southgate, Michigan for the year ended June 30, 2005. Once again, the entire Finance Department put forth an outstanding effort in preparing for the audit. In addition to the audit report, we offer the following comments for your consideration.

Current State Financial Picture

The adopted budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments revenue sharing and for fiscal years 2004/2005 and 2005/2006 the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a changes made by the State to revenue sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

Current State Financial Picture (Continued)

State shared revenue accounts for approximately 17% City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2001.

Year ended September 30	Constitutional	Statutory	Total
2001	\$1,954,000	\$2,110,000	\$4,064,000
2002	\$1,973,000	\$1,898,000	\$3,871,000
2003	\$2,006,000	\$1,656,000	\$3,662,000
2004	\$1,990,000	\$1,306,000	\$3,296,000
2005	\$2,028,074	\$1,223,404	\$3,251,478
2006 - Estimated	\$2,104,389	\$1,150,916	\$3,255,305

Over the past several years, the City has been working to maintain a healthy fund balance. Undesignated fund balance for the General Fund is approximately \$1,421,000 for the year ended June 30, 2005, a decrease of approximately \$123,000 from the previous year. As we have all learned, fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. The City is positioned in the very short-term to weather this downturn because of the fund balance that exists, but we encourage management to make every effort to protect and preserve the level of fund balance. This will ensure the City's health for years to come.

Transportation Matters

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal year 2004/2005 and 2005/2006 budgets.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

Property Taxes (Continued)

2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%		

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2005, the City's Headlee maximum property tax rate for its operating levy was 10.1968 mills even though City Charter would allow the City to levy 12.5 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

Local Government Finance Model

This spring, the Governor issued an Executive Order assembling a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. The Task Force has yet to actually have its first meeting and get off the ground. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force will hold its first meeting in September 2005. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

Municipal Finance Act – Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end June 30, 2005 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

Tax Matters

The centerpiece of the Governor’s FY 2005/2006 State of Michigan budget is significant business tax reform of the Michigan Single Business Tax. The Governor’s business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (known as WPW). As of this date, there is no consensus in Lansing on the Governor’s tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months into the fall.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the “WPW Case” involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the “occupancy method”) has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills in the House currently (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

Personal Property Tax

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

Personal Property Tax (Continued)

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters are settled and resolved. Other open matters are at different stages. We have heard that a utility had made a settlement offer to certain local units at 75% of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have under reported their self constructed assets creating the potential that monies were due to local governments for under paid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under reported self constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

The City has estimated that they may owe approximately \$412,000 related to the case discussed above and has designated fund balance in the General Fund to cover the potential refunds. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

Post-employment Benefits

Two new accounting pronouncements were recently issued by the Governmental Accounting Standards Board (GASB). GASB 43 and 45 address the accounting and disclosures related to post-employment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree health care liability through actuarial valuations that are to be performed biennially. These valuations will compute an "annual required contribution". The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has funds set aside in the Retiree Health Care Funds to help offset a portion of this liability. We commend the City for having the foresight to begin pre-funding this liability.

Grants

During the current year, \$77,785 of CDBG grant money was spent, but the reimbursement requests were not submitted until August 2005. Since this is a reimbursement type of grant, the City's General Fund loans the money necessary to pay for the grant expenditures and is then repaid once the grant funds are received. We suggest submitting reimbursement requests on a quarterly basis so that the General Fund is repaid in a more timely manner.

At June 30, 2005 the CDBG fund had a deficit of \$182,397. As discussed above, \$77,785 of this deficit will be eliminated from 2005 reimbursements and it is our understanding that the City is currently working to have future CDBG funds appropriated to cover remaining amount. If future CDBG funds are not available to eliminate the remaining deficit, the City would be required to fund the overage.

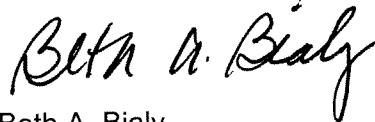
Grants (Continued)

In the current year we noted various differences between the CDBG grant activity maintained by the various grant coordinators and the general ledger maintained by the Finance Department. As of June 30, 2005 all of the differences had been reconciled, but we suggest having the grant coordinators review their records with the Finance Department on a quarterly basis to ensure all activity is being accounted for accurately.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



Beth A. Bialy



William E. Brickey